DOAA Georgia Department of Audits & Accounts

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Tax Incentive Evaluation: Research and Development Tax Credit

DOAA summary of report prepared by University of Georgia's Carl Vinson Institute of Government

BACKGROUND

Georgia's Research and Development Tax Credit (RDTC), signed into law in 1997, provides an income tax credit equal to 10% of a business enterprise's year-over-year increase in qualified research expenses. O.C.G.A. § 48-7-40.12 defines the increase as the additional qualified expenses over a base amount. The credit can be applied to 50% of the company's tax liability, carried forward up to 10 years, and applied to employee withholding.

This review was requested by the Senate Finance Committee and performed in accordance with O.C.G.A. § 28-5-41.1. The University of Georgia's Carl Vinson Institute of Government (the Institute) prepared the report.

ECONOMIC ACTIVITY

The Institute calculated that research spending by companies claiming the RDTC resulted in just over 26,000 total jobs in 2018. That number includes jobs in those companies, their suppliers, and in businesses where employees spend their incomes.

However, not all jobs that receive the RDTC are created solely due to the presence of the credit. The Institute's review of existing research found that 95% of the additional research investment would have occurred even if the credit did not exist. As a result, it estimated that 5% of the above jobs were created as a result of the RDTC (26,048 jobs * 5% = 1,302).

O.C.G.A. § 28-5-41.1 requires the analysis to include net economic activity, which includes opportunity cost. If the credited taxes had been collected and expended by the state, the Institute estimated the creation of 6,295 jobs and economic output of $492 million.

1,302 Jobs

$131M Value Added

$85M Labor Income

$248M Economic Output

Note: Economic activity that would not exist without the tax credit

REVENUE

The Institute determined that forgone state revenue totaled $234 million in 2018. Forgone revenue is projected at $305 million in 2025.

Economic activity attributable to the RDTC resulted in $3.9 million in new state tax revenue in 2018, which is projected to grow to $4.6 million in 2025.

$234M Tax Expenditure

$3.9M Revenue Generated

COST

The Department Revenue reported **negligible costs** associated with administration of the credit.

PUBLIC BENEFIT

Companies engage in research to maintain or grow their market share. The credit lowers the cost of research, some of which may have spillover benefits for society at large. The credit may also elevate the profile of the state's business environment, leading to clustering of businesses, suppliers, and customers (something not captured in a static economic model). Additionally, one user of the credit cited firm investment in the state's educational systems, which benefit students who may never be employed by the company.